

# A CONSUMERS GUIDE TO CHOOSING AN INSURANCE COMPANY

The Tennessee Department of Commerce & Insurance has important information for insurance consumers. Please read the following before buying insurance. You are a buyer of different types of insurance. You may have insurance on your home, your car, and your life. The Department's Insurance Division and the National Association of Insurance Commissioners (NAIC) has provided the following information to help you make informed choices when shopping for insurance. Since the mid-1800's, state governments have been responsible for regulating insurance. A primary job of the state insurance regulator is to make sure that the insurance company you do business with will be around when it's time for you to receive your benefits. Here are some common questions and answers to those questions.

*What is the likelihood that my insurance company will fail?*

Insurance company failures have been rare. Recently, insurance regulators have taken over a few companies facing economic trouble in order to protect insurance consumers. However, these companies represent a tiny fraction of the industry. When I am buying or renewing my insurance, how can I protect myself from companies in bad financial shape?

## SHOPPING FOR INSURANCE

The first step in selecting a financially strong insurer is to shop around. Talk to several representatives or insurance producers from a number of different companies. Tell them what your insurance needs are and ask them what their company will charge to cover you. When you talk to company representatives or insurance agents, remember that they are sales people who take their living selling insurance for insurance companies. They are a source of information about insurance coverage and the price for coverage, and they are affiliated with an insurance company. Insurance agents will not make money unless they sell you insurance from a company they represent. You are responsible for purchasing your insurance. Only you can decide which insurance product and company is right for you. Once you have narrowed down the companies you are considering, there are a number of steps you can take to learn more about their financial condition.

## MAKE SURE THE COMPANY CAN LEGALLY DO BUSINESS IN TENNESSEE

Call Consumer Insurance Services at 1-800-342-4029 to find out if the insurance company you've chosen is permitted to do business in Tennessee. If not, don't buy insurance from that company. Inform us that the company is trying to do business in Tennessee. If you purchase insurance coverage from a company not licensed in Tennessee, it is possible you will not be protected by the guaranty fund in this state should the company fail. Also note that insurance purchased from an approved but non-admitted (not licensed) insurer is not protected by the guaranty fund.

## CHECK WITH THE RATING AGENCIES

Several private companies or rating agencies conduct financial analyses of insurance companies and grade or rate them. These grades or private ratings are only opinions. Therefore, they carry no guarantee of accuracy, but they can provide you with some information about how private analysts view the financial health of a particular insurance company. Look at how several of the agencies rate a company. It's also a good idea to see if an insurer's grades or ratings have changed over the last couple of years. Ratings are available at most public libraries; or, you may call the agencies directly at the telephone numbers listed below. If you call, ask what you will be charged for rating information about a company. Also note that if you dial a "900" number, your telephone bill will reflect a charge that is a fee paid to the rating agency in addition to the cost of the call.

**A.M. Best Company** 900-555-2378 or 800-424-2378

**Demotech, Inc.** 614-761-8602

**Duff & Phelps, Inc.** 312-368-3157

**Fitch Investors Service, Inc.** 212-908-0500

**Moody's Investors Service** 212-553-0377

**Standard & Poors** 212-208-1527

**Weiss Research, Inc.** 800-289-9222

## IF IT SEEMS TOO GOOD TO BE TRUE, IT PROBABLY IS.

If you find that one company is able to quote you a much lower price or a much higher yield on an insurance product than the rest of the companies you are considering, be careful. Usually, high yields or low rates should generate a number of questions as to how the company can offer this product when other companies cannot.

### *What happens when a company becomes insolvent and is liquidated?*

Every state has a safety net to protect insurance consumers from financial loss in the rare instance that a company becomes insolvent. This safety net is called a "guaranty fund." A guaranty fund is established by state law. Licensed companies doing business in the state make up the membership of the guaranty fund association. Generally, the association provides a mechanism to pay the claims of policyholders and other claimants of an insolvent company. The money used to pay the claims against the insolvent insurance company comes from assessments

made against all of the insurance companies that are members of the guaranty fund association.

The following types of companies are not covered by a guaranty fund:

- Many Self-Funded Employer Plans
- Insurance Exchange
- Fraternal Benefit Society
- Health Maintenance Organizations

While most of the laws and rules dealing with regulating the financial condition of insurance companies are consistent across the nation, some important rules are different. The following information will outline some of the rules that are specific to Tennessee.

### *Am I covered by my guaranty fund?*

In this state, residents are covered by a guaranty fund for many kinds of insurance written by an admitted (licensed) insurance company, subject to certain restrictions. Is the insurance product I bought covered by the guaranty fund? The life/disability guaranty fund covers such products as life insurance, disability insurance, annuities, and supplemental contracts. The property/casualty fund covers property and casualty insurance, but not surety, title, credit, ocean marine, mortgage guaranty and others.

### *Would my claim be paid in full?*

State law places a limit on how much a guaranty fund must pay to a person presenting a claim to an insolvent insurer. These limits vary, depending on the type of insurance product. The following are the limits of guaranty fund coverage in this state:

## LIFE/HEALTH FUND

- Death benefits up to \$300,000
- Net cash surrender/withdrawal value for a life policy up to \$100,000
- Health benefits (remember HMO's are excluded) up to \$100,000
- Annuities up to \$100,000 in present value

## PROPERTY/CASUALTY FUND

All Property and Casualty Claims Except Workers' Compensation up to \$100,000\* Workers' Compensation Unlimited

\*( \$100 Deductible)

### *How do I file a claim if the insurance company has failed?*

You should receive a notice from the Division of Insurance or court appointed deputy advising you on how to file a claim and how long you have to file it. Pay close attention to any filing deadlines mentioned in the letter from the division— you must comply with those deadlines in order to preserve your rights.

### *Can I find out if consumers are complaining about the company?*

Yes. Call 1-800-342-4029 and ask our Consumer Insurance Services section if there have been an unusually large number of consumer complaints against the company. We can provide the total number of complaints filed with this department. By law, we are not allowed to provide information regarding the specific type of complaints. Sometimes, if a company is having financial difficulty, the company may start to pay its claims more slowly or not at all. While a large number of consumer complaints lodged against a company is not a certain way to tell if a company is healthy, it's a good clue. The Tennessee Department

of Commerce & Insurance is here to serve the consumers of Tennessee. Our Insurance Division can be a source of unbiased information and assistance to you when shopping for your insurance needs.

If you have a complaint against an insurer, it is always best to contact your insurance company first to attempt to settle the matter. Most insurance companies have policyholder service offices set up precisely to handle such questions. If you still are not satisfied, contact this department. We have complaint investigators in our Consumer Insurance Services section to assist you with your concerns. Although they cannot represent you legally against an insurance company or adjustor, they can make appropriate investigation into potential violations of insurance laws or regulations based upon your complaint.

This information was prepared through the cooperative effort of the Tennessee Department of Commerce & Insurance (TDCI), Division of Insurance and the NAIC. The TDCI is the agency charged with regulating the business of insurance in the state of Tennessee. The NAIC, founded in 1871, is an association of the chief insurance regulators from the 50 states, the District of Columbia, and four U.S. territories.

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